

BILL # HB 2280

TITLE: tax deduction; 529 education plans

SPONSOR: Huffman

STATUS: As Amended by House Ways and Means

PREPARED BY: Amy Strauss

FISCAL ANALYSIS

Description

This bill provides a state income tax deduction for all taxpayers who contribute to an Arizona 529 Family College Savings plan. Currently, there is no federal income tax deduction for 529 Plans. The state tax deductions offered in this bill are capped at \$2,000 for a single individual and \$4,000 for married couples filing a joint return. These changes apply retroactively to taxable years beginning from and after December 31, 2005.

Estimated Impact

The bill would result in an estimated General Fund revenue loss of \$(310,000) in FY 2007, which would increase to \$(390,000) in FY 2008 and \$(490,000) in FY 2009.

The Commission for Postsecondary Education estimates the impact of the bill at \$(300,000) in FY 2007.

Analysis

The Arizona Family College Savings Program is a state-sponsored 529 plan that allows money to grow tax free for qualified higher education expenses. As of December 31, 2005, there were approximately 2,600 account holders in Arizona's 529 Plans. The bill provides a state income tax deduction for Arizonan plan participants of up to \$2,000 for a single individual and \$4,000 for married couples filing a joint return. In analyzing the fiscal impact of these deductions, JLBC Staff has made the following assumptions:

- Married couples account for 75% of the total amount of deductions. While only 44% of Arizonan filers are married, those who file as married are more likely to save for future educational expenses by participating in the plans.
- Participants fall under an average income tax bracket of 3.5%.
- Participants would take the largest deduction allowed, \$4,000 for married couples, and \$2,000 for singles. This maximum deduction amount is supported by the average 3.5% income tax level.
- Growth in Arizonan 529 account holders will be 25%. This percentage reflects the average growth of new account holders over the past 3 years.

Based on the above assumptions, the total revenue loss would be \$(310,000) in FY 2007, including \$(270,000) from 2,000 married couples and \$(40,000) from 600 single individuals.

The bill may result in new 529 Plan accounts to the extent that it provides an incentive for taxpayers to open an account, which could increase the revenue loss associated with the bill. Using the average tax rate of 3.5%, a married couple would save \$140 from the \$4,000 maximum deduction, while a single filer would save \$70.

The Commission for Postsecondary Education estimates a \$(300,000) revenue loss. That estimate assumes the middle income tax rate of 3.74%, 2,000 account holders, and the maximum \$4,000 deduction.

Local Government Impact

The Urban Revenue Sharing formula distributes 15% of income taxes collected two years prior to incorporated cities and towns. The bill, therefore, could reduce these distributions by approximately \$47,000 in FY 2009.

2/9/06